

Charter has made significant progress in 2006 in formalising its approach to Corporate Social Responsibility ('CSR') by strengthening management resources and improving transparency, with increased focus on the frequency and content of internal reporting.

Policy and procedures

In 2006, formal policies and procedures manuals were issued to all subsidiaries of the Company (except those situated in North America). Amongst other matters, the manuals determine the policies and procedures that Charter's subsidiaries must follow to operate in an environmentally and socially responsible manner. The most relevant sections from a CSR perspective are those on:

- Code of conduct
- Whistleblowing
- Employment
- Health and safety
- Environmental
- Risk management
- Business continuity planning and disaster recovery.

A manual for Charter's subsidiaries in North America is being developed to reflect these companies' distinct management structure and certain regional differences. This manual will be issued and implemented during 2007.

Charter's subsidiaries must comply with the policies and procedures contained in these manuals unless they conflict with applicable local legislation.

Management responsibilities

Employees must comply with and act in accordance with the provisions of the Code of conduct and the Whistleblowing policy. The Chief Executive is responsible for ensuring that the sections of the manual covering employment, health and safety and environmental matters are regularly updated.

During 2006, the new position of Head of Risk Management was established at the Company. This corporate officer is responsible for ensuring that sections of the manual relating to risk management and business continuity planning are updated and has been delegated responsibility for preparing monthly performance reports on health and safety, and quarterly reports on environmental matters, for submission to the Executive Committee and the Board.

Operational responsibility for managing these matters lies with the senior management of each operating unit. The Head of Risk Management has a co-ordinating role in areas of CSR to improve the sharing of best practice, collection of data and consistency of reporting. CSR is considered to be an important driver of long term sustainable business success and is being integrated within the overall risk management practices of Charter. Risks and issues relating to CSR are updated by subsidiary companies as part of their regular reviews, and progress on mitigating actions is monitored regularly. There is a formal management review of major risks by the Executive Committee on a quarterly basis and by the Board every six months.

In 2006, the focus has been on strengthening human resources, incorporating health and safety as an integral part of the deployment of lean manufacturing, further improving product safety labelling for welding consumables, increasing the frequency and consistency in reporting key health, safety and environmental matters, and progressing business continuity plans. These will continue to be the main areas of focus in 2007 and are considered to be an important part of reviewing management performance. The intention is to be in a position to provide more quantitative data in the next Annual Report.

Key areas of CSR focus

Health and safety

The importance of health and safety has been emphasised by ensuring that performance and progress on improvement actions are considered as a formal agenda item at meetings of senior management and at Board meetings. Any injury that results in lost time is reported to senior management and to the Head of Risk Management. In addition, since the last quarter of 2006, the Head of Risk Management prepares a monthly report on overall health and safety performance for senior management and the Board. By the end of 2007 annual data will be available to report externally.

Each operating unit has its own environmental, health and safety committee, and health and safety resources are also deployed at major manufacturing sites. As part of Charter's formal health and safety plans, these resources are to be strengthened during 2007 through additional training and external recruitment where necessary. Safety is considered to be a key part of the Lean-manufacturing initiative and improvements in safety are already being made as this initiative is rolled out across the Company's operating units.

The overall policy of Charter is to protect the health and safety of all employees, contractors and third parties. In 2007, leadership training in this area will be underpinned by management systems built on OHSAS 18001. ESAB is planning to achieve group certification in 2007. The majority of Howden manufacturing sites will also be certified by the end of 2007.

It is with regret that we have to report the death of an employee on 24 February 2006 at Howden Hua in the People's Republic of China, as a result of a crush injury suffered whilst moving steel plates with an overhead crane. Howden Hua was fined Chinese Yuan 30,000 by the Chinese authorities following their investigation into the accident. Improvements in crane safety have since been implemented in all Howden facilities worldwide.

There have been no other reports of fines or penalties as a result of health and safety incidents or inspections by authorities.

Environmental

ESAB has a long history of evaluating and addressing environmental impacts, being one of the first companies in its sector to produce a Sustainable Development Report in 1997. The Lean-manufacturing initiatives underway will aid in ensuring the efficient use of raw materials and energy, the promotion of recycling and a reduction in waste products.

ESAB is the only welding company to have achieved global certification to ISO 14001, which was awarded on 22 January 2006. The commitment to environmental improvement continues, with a focus in the last quarter of 2006 and first quarter of 2007 on completing energy audits of all of its major manufacturing sites to identify areas for further improvement.

At ESAB's consumables manufacturing facility in Perstorp, Sweden, there has been a continuous focus on reducing the metal scrap from the manufacture of electrodes. In the 5 years between 2002 and 2006, through a combination of process changes and increased internal recycling, scrap has come down from 533 tonnes to 319 tonnes, equivalent to a reduction from 28kgs to 17kgs per tonne of product shipped. All metal scrap is sent for recycling.

At ESAB's main equipment manufacturing site in Laxå, Sweden, waste going to landfill has been reduced from 825 tonnes in 1996 to just 48 tonnes in 2006. This improvement is the result of many different actions, primarily associated with recycling. For example all wood waste is now separated and used for district heating. From 2003, all the contents from waste paper baskets were sorted, with any combustible material, such as paper and plastics, being separated and sent for use as fuel. In 2006 this amounted to 105 tonnes.

Howden's main environmental impact is through the products it supplies to its customers to enable them to achieve greater energy efficiency in their operations. Howden supplies fans and rotary heat exchangers that are used in coal fired power stations to increase efficiency and reduce atmospheric pollution. Howden is aware of the environmental impact of its own manufacturing processes and is committed to conducting its operations in a manner that minimises any detrimental effect on the environment and to continuously improving overall environmental performance.

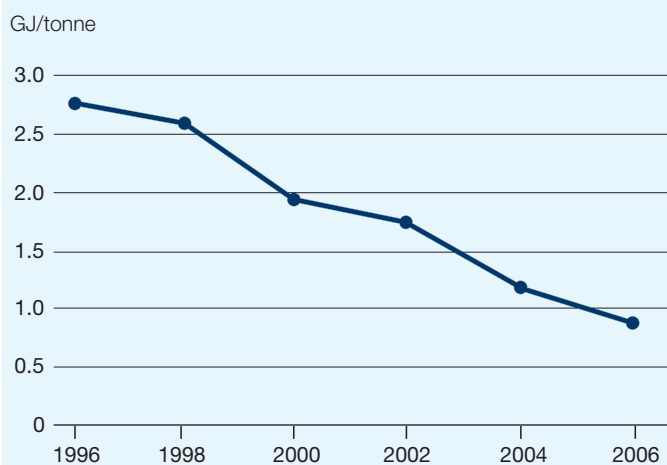
Case study: ESAB manufacturing facility at Vamberk (Czech Republic)

Over the last 10 years ESAB's consumable manufacturing site in Vamberk, Czech Republic has undertaken a number of projects to reduce energy consumption. In 1997, the changing of the motors used on wire-drawing lines used in Magwire production and installing frequency converters was started. This achieved a 30 per cent reduction, in energy consumption from 0.2424MWh/tonne of product shipped in 1996 to 0.1692 MWh/tonne in 2006.

Another initiative was in flux production where agglomerated fluxes require a less energy intensive manufacturing process than fused fluxes. A progressive replacement programme has been underway since 1995, when only 88 tonnes of agglomerated flux was produced compared with 2,266 tonnes of fused flux. In 2006 the proportions had changed to 1,933 tonnes of agglomerated and 1,063 tonnes of fused flux. Overall energy consumption in flux production went down from 1.4107 MWh/tonne of flux shipped in 1995 to 0.9902 MWh/tonne in 2006.

Substantial reductions have also been achieved in energy used for heating by replacing steam by hot water for space-heating, improving the insulation in buildings and providing thermostatic regulators. The results are shown below, with a reduction from 2.725 GJ/tonne of product shipped in 1996 to 0.920 GJ/tonne in 2006.

Energy consumption for heating at ESAB's manufacturing facility at Vamberk (Czech Republic)



Source: ESAB estimates

Howden has started to collect internal usage of electricity, water and waste generation. Two of Howden's sites are certified to ISO 14001, being Belfast in the UK and Nogent-sur-Oise in France. Two further sites, in France and South Africa, are working towards achieving certification in 2007 with the remaining manufacturing sites targeted for completion by the end of 2008.

No reports of fines or penalties have been received for breaches of permits or other environmental regulations.

Employment

Charter recognises and values diversity in its subsidiaries' workforces and encourages them to attract, develop, deploy and reward employees solely on the basis of merit.

ESAB is deploying training and development programmes worldwide. An over-arching framework for the development, performance management and training of ESAB staff is being developed. A leadership development programme was started in 2005/2006 in association with Henley Management College with 15 nominees completing the course in 2006 and a second group of 16 starting it. Delegates are drawn from all over the world and from all disciplines. On-going training in Lean-manufacturing is being provided by Unipart Logistics in the form of short training courses and, more recently, in the form of a two and a half week course for sixteen Lean 'champions' from ESAB factories around the world that was held in Vamberk, Czech Republic. So far employees from thirteen countries have received training. Further training is planned in 2007, which will include representatives from Howden.

Howden has an overall focus on recruiting and developing young engineers, with new graduates being recruited in countries such as the UK, Germany, Australia, Denmark and France where the businesses are large enough to support regular trainees. Work placements are also offered, with apprenticeship schemes currently running in the UK, Germany, South Africa and Australia. Howden's reputation as a good employer is reflected in the fact that the workforce is relatively stable.

The Company has in place a Whistleblowing policy which provides an opportunity for all employees to raise any concerns independent of their normal reporting lines. Any concerns raised are investigated by Internal Audit and reported to the Audit Committee.

Communications with employees are a significant factor in developing an efficient and successful business. ESAB issues a newsletter, 'Let's Talk', every two weeks, which includes community initiatives and staff stories, as well as customer wins and company projects. Howden produces a 'team brief' every two months that is circulated to managers globally for use in local discussions. A six-monthly newsletter entitled 'Project 150' is provided in the local language to Howden employees. Employees also receive information through works councils and other consultative bodies.

Community involvement

Charter's subsidiaries are encouraged to support the local communities in which they operate. As an example, ESAB Brazil was a founding member of a project aimed at training young destitute people. The project is carried out in partnership with companies and institutions in the neighbourhood and so far ESAB has contributed eight welding machines, fume extraction equipment for the eight cabins and technical support. Two groups, with 15 people in each group, completed the course in 2006.

Many Charter subsidiaries actively support local charities either through fundraising or other forms of assistance. For example, ESAB Group Inc employees raised over US\$ 125,000 in 2006 for local charities.

In 2006, a joint programme between Hunter Valley Training Company and Howden Australia was conducted to address the chronic skills shortages in metal trades industries within the Hunter Valley area by injecting a new group of skilled apprentices into the local community.

Supply chain

Charter recognises the importance of its subsidiaries working in partnership with their suppliers and sub-contractors to meet commitments to customers. In addition to focus on quality, consideration is given to environmental, health and safety issues. A 'Sustainability Questionnaire for Suppliers' has been developed by ESAB which is being distributed to suppliers. The questionnaire addresses environmental management; occupational health, safety and labour management; and restricted chemical substances.